What You Need to Know About the New Credit Card Reform Law

From U.S. Representative Chet Edwards

Today, credit card debt in the United States has reached a record high of nearly $1 trillion. Almost half of American families currently carry a credit card balance that is, on average, $7,300. One out of every five people carrying credit card debt pays an interest rate above 20 percent. In 2008 alone, credit-card companies imposed penalty fees of $19 billion on families with balances, which accounted for nearly half of their $40.7 billion profits. These often hidden fees have risen by more than 50% since 2003.

Burdened by credit card practices like these and others that the U.S. Federal Reserve has called “unfair, deceptive, and anti-competitive”, many working families feel powerless to keep their financial heads above water. What have been missing are common sense protections that would hold credit card companies accountable for their abuses, which have only deepened the economic crisis in this country.

The good news is that, after years of being blocked by special interests and Wall Street banks, there is a new law on the books that will put an end to credit card practices that have unfairly gouged individuals and families. The Credit Cardholder Bill of Rights, supported by large bipartisan majorities in Congress, and recently signed into law by the President, is one of the most significant consumer protection laws enacted in over a decade, and I am proud to have supported it. While this new law will put in place important protections to prevent credit card companies from unfairly taking advantage of working families, it is vital that consumers exercise personal responsibility, and pay their bills on time to avoid getting over extended with debt.

There are several ways that the Credit Cardholder Bill of Rights will benefit responsible credit cardholders. Importantly, it will block credit card companies from retroactively increasing the interest rates on customers' existing balances unless the borrower is at least 60 days late paying a bill. Also, if a cardholder is 60 days late, but makes payments on time for 6 months, then the original interest rate must be reinstated. Credit card companies must now give 45 days notice on all interest rate increases, so consumers can pay off their balances or shop for a better deal. To protect consumers from due date gimmicks, the new law will require credit card companies to mail bills 21 days before the due date. Gone is the practice of charging interest on already repaid debt, which unfairly penalizes those who responsibly pay their bills. Also significant is the requirement that payments first be applied to the credit card balance with the highest rate of interest, which helps consumers pay off debt faster.

To help keep minors out of excessive debt, those under the age of 21 must have a parent or guardian co-sign their application, or provide proof that they can afford a credit card on their own. Promotional rates offered to woo new customers must last at minimum 6 months, and rate hikes are no longer allowed in the first 12 months after a new account is opened. Finally, it requires that credit card agreements be written in a readable font to put an end to terms hidden in fine print. The 45-day requirement to notify cardholders of interest rate increases and the requirement to bill consumers 21 days in advance will become effective by September. The remaining provisions of the law will take effect in February of 2010.

In this time of economic uncertainty, families can feel confident that important progress is being made with this new law that will make a positive difference in their everyday lives. Going forward, Congress and the Administration should work together to enact other important reforms not included in this legislation such as limiting exorbitant interest rates that can be charged to cardholders, but let there be no doubt that the Credit Cardholder Bill of Rights finally begins to level the playing field for consumers.

Prevents Unfair Increases in Interest Rates and Changes in Terms

• Prohibits arbitrary interest rate increases and universal default on existing balances;
• Requires a credit card issuer who increases a cardholder's interest rate to periodically review and decrease the rate if indicated by the review;
• Prohibits credit card issuers from increasing rates on a cardholder in the first year after a credit card account is opened;
• Requires promotional rates to last at least 6 months.

Prohibits Exorbitant and Unnecessary Fees

• Prohibits issuers from charging a fee to pay a credit card debt, whether by mail, telephone, or electronic transfer, except for live services to make expedited payments;
• Prohibits issuers from charging over-limit fees unless the cardholder elects to allow the issuer to complete over-limit transactions, and also limits over-limit fees on electing cardholders;
• Requires penalty fees to be reasonable and proportional to the omission or violation;
• Enhances protections against excessive fees on low-credit, high-fee credit cards.

Requires Fairness in Application and Timing of Card Payments

• Requires payments in excess of the minimum to be applied first to the credit card balance with the highest rate of interest;
• Prohibits issuers from setting early morning deadlines for credit card payments;
• Requires credit card statements to be mailed 21 days before the bill is due rather than the current 14.

Protects the Rights of Financially Responsible Credit Card Users

• Prohibits interest charges on debt paid on time (double-cycle billing ban);
• Prohibits late fees if the card issuer delayed crediting the payment;
• Requires that payment at local branches be credited same-day;
• Requires credit card companies to consider a consumer's ability to pay when issuing credit

cards or increasing credit limits.

Provides Enhanced Disclosures of Card Terms and Conditions

• Requires cardholders to be given 45 days notice of interest rate, fee and finance charge increases;
• Requires issuers to provide disclosures to consumers upon card renewal when the card terms have changed;
• Requires issuers to provide individual consumer account information and to disclose the period of time and total interest it will take to pay off the card balance if only minimum monthly payments are made;
• Requires full disclosure in billing statements of payment due dates and applicable late payment penalties.

Strengthens Oversight of Credit Card Industry Practices

• Requires each credit card issuer to post its credit card agreements on the Internet, and provide those agreements to the Federal Reserve Board to post on its website;
• Requires the Federal Reserve Board to review the consumer credit card market, including the terms of credit card agreements and the practices of credit card issuers and the cost and availability of credit to consumers;
• Requires Federal Trade Commission rulemaking to prevent deceptive marketing of free credit reports.

Ensures Adequate Safeguards for Young People

• Requires issuers extending credit to young consumers under the age of 21 to obtain an application that contains: the signature of a parent, guardian, or other individual 21 years or older who will take responsibility for the debt; or proof that the applicant has an independent means of repaying any credit extended;
• Limits prescreened offers of credit to young consumers;
• Prohibits increases in the credit limit on accounts where a parent, legal guardian, spouse or other individual is jointly liable unless the individual who is jointly liable approves the increase;
• Increases protections for students against aggressive credit card marketing, and increases transparency of affinity arrangements between credit card companies and universities.

Enhanced Penalties

• Increases existing penalties for companies that violate the Truth in Lending Act for credit card customers.

Gift Card Protections

• Protects recipients of gift cards by requiring all gift cards to have at least a five-year life span, and eliminates the practice of declining values and hidden fees for those cards not used within a reasonable period of time.

Encourages Transparency in Credit Card Pricing

• Requires the GAO to study the impact of interchange fees on consumers and merchants, specifically their disclosure, pricing, fee and cost structure.

Protects Small Businesses

• Requires the Federal Reserve to study the use of credit cards by small businesses and make recommendations for administrative and legislative proposals;
• Establishes Small Business Information Security Task Force to address the information technology security needs of small businesses and help prevent the loss of credit card data.

Promotes Financial Literacy

• Requires comprehensive summary of existing financial literacy programs and development of strategic plan to improve financial literacy education.

Edwards represent District 17 in Congress and serves on the House Financial Services Appropriations Subcommittee.